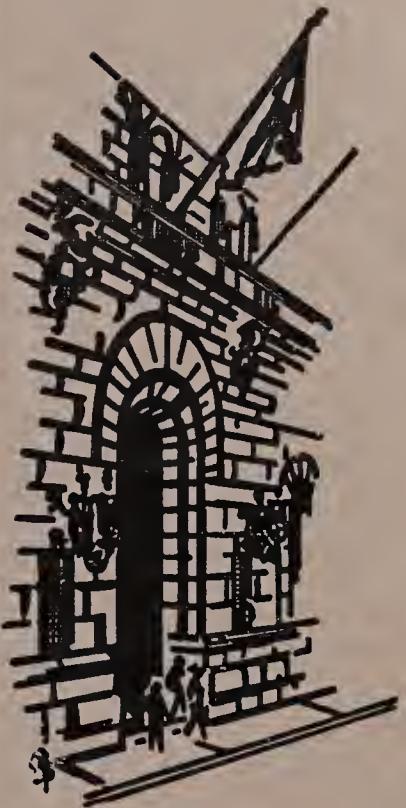


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FEDERAL RESERVE BANK
OF NEW YORK
ANNUAL REPORT 1992

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*Federal Reserve Bank
of New York*

**SEVENTY-EIGHTH
ANNUAL REPORT**

For the Year

Ended

December 31, 1992



Second Federal Reserve District

HG2613 , N54 F42 1992

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FEDERAL RESERVE BANK OF NEW YORK

March 10, 1993

To the Depository Institutions in the
Second Federal Reserve District

I am pleased to transmit the *Seventy-eighth Annual Report* of the Federal Reserve Bank of New York. This year's *Annual Report* contains the text of two speeches that I have delivered in recent weeks.

The first one of these, which is entitled "The Trilogy of Central Banking in a Contemporary Setting," was delivered to the Mid-Winter Meeting of the New York State Bankers Association on January 27, 1993. Among other things, that address points to the very considerable progress that has been made over recent years in winding down inflation and rebuilding the underlying strength of banking and financial institutions and the banking and financial system as a whole. It further suggests that while those efforts still have a way to go, a continuation and sustainment of these trends could bode very well indeed for the intermediate to longer term performance of the U.S. economy.

The second address, which is entitled "Reflections on the Reform Process," was delivered before the Economic Club of New York on February 9, 1993. This address contains my personal reflections on progress, problems, and prospects for the wholly unprecedented economic and political reform process that is under way in Russia and the other newly independent republics of the former Soviet Union.

While these two addresses cover very different subject matters, both should be of vital importance to us all. I hope you will find them of interest.

E. Gerald Corrigan
President

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*Seventy-eighth Annual Report
Federal Reserve Bank of New York*

**THE TRILOGY OF CENTRAL BANKING IN A
CONTEMPORARY SETTING**

E. Gerald Corrigan
President

I am delighted to be with you today to deliver my ninth and last address as President of the Federal Reserve Bank of New York to the Mid-Winter Meeting of the New York State Bankers Association. While I can fully understand the reasons why your meeting is being held here in Washington, I must say that it feels a bit strange to be here for this purpose. Indeed, as I am something of a traditionalist, it strikes me as akin to holding the New York City Marathon in Washington. Of course it could be done, but it simply would not be the same.

Having said that, I fully recognize that the decision to hold your meeting here in Washington is based in part on a desire to drive home the point that the regulatory burden now facing banking institutions is a matter of such overriding concern that this departure from tradition is both appropriate and necessary. Since I share many of those concerns, I will turn to that subject later in my remarks.

I have viewed the essence of central banking in terms of what I call the trilogy of central banking activities and responsibilities. That trilogy, of course, refers to the control of inflation through monetary policy; ensuring the safety and stability of the banking and financial system through supervisory and prudential policies and programs; and ensuring the efficiency, integrity, and safety of the payments system through a combination of sound operating practices and policies.

Before turning to that subject, however, I hope you will bear with me as I reflect on the sweep of events over the past eight years or so, in part with a view toward placing some of the challenges of today and tomorrow in a broader context.

As many of you know, I have viewed the essence of central banking in terms of what I call the trilogy of central banking activities and responsibilities. That trilogy, of course, refers to the control of inflation through monetary policy; ensuring the safety and stability of the banking and financial system through supervisory and prudential policies and programs; and ensuring the efficiency, integrity, and safety of the payments

system through a combination of sound operating practices and policies. Within the framework of the trilogy—and drawing on the use of the word trilogy in a literary context—I have always maintained that the essence of the trilogy can never be grasped by looking at any one of its parts. Rather, it is a package deal in that its true significance can only be found in the manner in which each of the elements of the trilogy interacts with the others to form a common theme. And that common and unifying theme is overall economic and financial stability.

When we succeed in getting all three of the elements of the trilogy working together in the proper direction, the result in terms of overall economic performance will be positive; but when any one of the elements of the trilogy is not working in the right direction, economic performance and prospects will suffer accordingly, and as failure in one area ultimately contaminates the others, performance and prospects will worsen.

That is, when we succeed in getting all three of the elements of the trilogy working together in the proper direction, the result in terms of overall economic performance will be positive; but when any one of the elements of the trilogy is not working in the right direction, economic performance and prospects will suffer accordingly, and as failure in one area ultimately contaminates the others, performance and prospects will worsen. Fortunately, I believe we can now say with some confidence—and after long and painful experiences to the contrary—that we may be on the verge of getting it right with regard to all three elements of the trilogy.

Most important, the evidence is now strong that the inflation genie is largely back in the bottle, even if the cost of achieving that result has been very high and has been incurred over a very long period of time. But the pain and suffering associated with that long adjustment process should not, even in retrospect, have surprised us because economic history tells us in wholly unmistakable terms that there is no painless way to tame the inflationary process once it takes hold.

That is why, even today, with the outlook for inflation seeming to be so benign, we must remain vigilant and we must staunchly resist those voices that would suggest that a “little more” inflation may not be all that bad, especially if it brings a lot more growth. Above all, we must vigorously resist any suggestion that a “little more” inflation is something we can live with because we can fine-tune policy and somehow “cap” the inflation rate at some moderately higher, but stable, rate. I say to you in point blank terms that such an approach will not work, and when it does not work, I can absolutely

guarantee that there will be no witch doctor nor any magic medicine that will be capable of reversing that “little more” inflation without incurring substantial costs in terms of higher unemployment and lost output.

We as a nation are at a crossroad. We are within striking distance of patterns of performance with regard to inflation that will place us in lockstep with, or perhaps even

We are within striking distance of patterns of performance with regard to inflation that will place us in lockstep with, or perhaps even ahead of, the best performing nations in the world with regard to preserving the purchasing power of the dollar. . . . And we can achieve that goal even as economic activity improves.

ahead of, the best performing nations in the world with regard to preserving the purchasing power of the dollar—a currency that, I might add, is still the currency of choice for much of the world’s trade and finance. And we can achieve that goal even as economic activity improves, as I expect it will. In those circumstances, our capacity to deal effectively with many of the other economic problems that have plagued us over the past decade or more—including our external competitiveness—will be enhanced dramatically. On the other hand, if we slip, if we falter, if we succumb to the temptations of expediency, we will pay the price, and in the highly competitive and highly integrated world of the nineties and beyond, that price may be very high indeed.

The battle against inflation is never over and the very minute that a society declares victory in that battle is likely to be the very minute that the seeds of the next round of inflation are sown, with all of their painful and inevitable consequences for the future.

This, of course, is simply another way of saying that the battle against inflation is never over and the very minute that a society declares victory in that battle is likely to be the very minute that the seeds of the next round of inflation are sown, with all of their painful and inevitable consequences for the future.

If monetary policy and the effort to control and contain inflation rightly stand at the center of the trilogy, the safety and stability of the banking and financial system surely stand very close at hand. Here, too, I need not remind this audience that the last decade or so has been extraordinarily difficult. Indeed, throughout the eighties and into the early nineties we have seen more financial disturbances—some clearly involving

potential systemic consequences—than in any period of similar duration since the depression-plagued era of the 1930s.

The laundry list of events and their consequences and potential consequences are known to all, even if some of the diagnostics as to why these things occurred are not yet

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fully understood. Putting those unanswered questions aside for now, I believe it can be said that over this period we managed to dodge several bullets—high caliber bullets, I might add. I believe it also can now be said that the banking and financial system is well along in the process of rehabilitation and that signs of much needed rebuilding of muscle tone in our banking and financial institutions are taking hold in a broad and convincing manner.

I believe it also can now be said that the banking and financial system is well along in the process of rehabilitation and that signs of much needed rebuilding of muscle tone in our banking and financial institutions are taking hold in a broad and convincing manner.

But here, too, we are at a crossroad. That is, will the period ahead—a period in which private credit demands are likely to strengthen—be one in which the painful lessons of the past are remembered or will better times see a gradual erosion and ultimate reversal of the gains we have seen? One would hope—given all that has occurred—that the answer to that question can only be that the lessons of the eighties were so harsh that dictates of prudence, caution, and discipline are not likely to be forgotten or reversed for many, many years to come. But experience also tells us that as economic activity improves, those “animal instincts” have a way of reasserting themselves.

That risk, however remote it may seem today, is the primary reason why I believe that even as we seek to address the legitimate problem of regulatory overkill, we must *not* relax the core elements of sound supervisory policy. Those core elements of sound supervisory policy include comprehensive annual examinations, meaningful prudential standards in such areas as capital adequacy, liquidity, risk management systems, credit concentrations, and rigorous control of off-balance sheet activities, and above all,

insistence on rigorous management attention to credit generation and credit monitoring systems. Indeed, in some of these areas, further strengthening of supervisory policies may be needed even as we seek to reduce regulatory burdens in other areas. In saying this, I am mindful that there are those who believe that the Basle capital standards should be relaxed or significantly modified because, they argue, these standards somehow or other caused the so-called credit crunch.

I believe that even as we seek to address the legitimate problem of regulatory overkill, we must *not* relax the core elements of sound supervisory policy.

I simply do not accept that view, in part because I believe that the credit crunch was fundamentally a demand-driven response to the debt and credit excesses of the 1980s. That is not to say that supply side forces were wholly absent, but it is to say that such supply side forces were not the primary cause of the credit slowdown. And more often than not, where supply side forces were at work at individual institutions, they should have been! Indeed, the only *major* shortcoming of the Basle capital standards that I can readily think of is that they were not put in place soon enough. In these circumstances, and given that all internationally active U.S. banking institutions exceed the Basle

Any retreat from these [Basle capital] standards on the part of the United States would, in my view, be a colossal mistake, if not a national embarrassment.

capital minimums—and typically by large margins—any retreat from these standards on the part of the United States would, in my view, be a colossal mistake, if not a national embarrassment.

It is in our national interest for the U.S. banking and financial system to be seen as the bedrock of the international banking and financial system. If we look down the road, that goal may be within reach, but it will only be reached if the global marketplace sees U.S. institutions as the unquestioned leaders in financial and managerial strength. To come full circle in that regard will require progressive federal banking reform legislation—a subject I will return to shortly. But even the most progressive reform will never be a substitute for underlying strength on the part of individual institutions. Nor will it alter the need for that core of sound supervisory policies I spoke of earlier.

To put this in perspective, we have come a long way in rebuilding the second leg of the trilogy. Our financial institutions are not yet all that they can be or all that they should

be, but they are surely moving in the right direction. As that process continues, the foundation for greater economic strength and stability in our country will also grow.

The third leg of the trilogy—the plumbing of the financial system as I like to call it—also is an area in which great progress has been made. Indeed, partly because events conspired to force our attention on the importance of the payments system, the back office has now become part of the front office in that top management in central banks, commercial banks, and other financial institutions now focuses large amounts of time and money on ensuring the reliability and integrity of payments, settlement, and clearance systems for the full range of financial instruments, including derivatives. The payments system is now even a subject of serious attention in the hallowed halls of academia.

I regard all of this—starting importantly with our ability to guard against systemic problems—as a very large plus for the future. I am also mindful that in this particular area, some of the incentives to make needed improvements grew out of adversity. For example, I can still vividly remember that Thursday and Friday in November 1985 when a software problem caused a major computer outage at a large clearing bank. If ever there was a silver lining behind a cloud, there was one in that case because it provided a forceful reminder of the need to look at these operating systems in a very different light. Given all of the events that were to follow—not the least of which was the continued astronomical growth in the speed, volume, and complexity of transactions flows—I believe that the lessons learned from that seemingly isolated computer outage have served us very well indeed.

More recently, efforts to upgrade operating, risk management, and control systems have taken on new elements of urgency as financial innovations continue to add new elements of complexity and interconnection to payment, clearance, and settlement systems on a national and global scale. Great progress has been made in this regard, but it is an enormously complex task that is far from finished.

I believe it is now widely recognized and accepted that overall economic and financial stability is inextricably related to the strength of this third leg of the trilogy [payments systems].

The bottom line, however, is that I believe it is now widely recognized and accepted that overall economic and financial stability is inextricably related to the strength of this third leg of the trilogy. One does not have to be a rocket scientist to see that if that third leg were to fracture, the other two legs would be in jeopardy. The irony may be that

while one need not be a rocket scientist to understand this, I sometimes wonder if the rocket scientists of contemporary banking and finance may not be among the last to grasp this point.

It is often said that where you stand depends on where you sit. There is some truth to that, but regardless of where one sits or where one stands, it must be said that in the areas I have mentioned—and in others I have not mentioned—a genuine measure of progress has been made in rebuilding the economic and financial fundamentals that can serve our nation and each of us very well in the years ahead. But we are by no means out of the woods. To mention just a few areas of continuing concern:

- Questions remain about the sustainability of the improved pattern of economic activity we have seen over the past two quarters in a setting in which economic developments in much of the rest of the industrial world are not encouraging.
- The intermediate- and long-term outlook for the budget deficit can only be described as alarming in that it represents a major threat to our national well-being and our economic standing in the world's community of nations.
- There are new questions as to whether contemporary banking and financial practices—including their transnational characteristics—may bring with them the potential for periodic bouts of credit-induced economic and financial instability.
- Finally, and closer to home for this group, we have been singularly unsuccessful in efforts to reform and modernize the basic legislative framework within which our banking and financial system operates. I, for one, hope that the new Administration and the new Congress will place this pressing need high on the national agenda. Hoping not to sound immodest, I continue to believe that the framework I introduced before this audience in January 1987 still represents a useful starting point for progressive and broad-based reform.

While on the subject of banking reform, let me turn briefly to the subject of regulatory burden. In this connection, I and several of my associates at the New York Fed had a very useful “shirt sleeve” discussion on this subject just last Friday with a cross-section of banks of different sizes from the Second Federal Reserve District. While that discussion produced a number of useful specific insights and suggestions, I want to make several more general comments on this subject.

- First, while I agree fully that regulatory and supervisory policy has drifted into

the realm of “micromanagement,” finding meaningful remedies in the very short run will not be easy. I say that in part because the goals of banking regulation and supervision have, over time, become multifaceted. That is, while the central objective of supervisory law and regulation remains the safety and soundness of the banking system, a range of other socially and/or economically desirable objectives have been introduced to the supervisory process over the years. As long as we have a system with multiple objectives—a situation that is not likely to change—sorting out and putting in place major reductions in the regulatory burden will not be easy. This is particularly the case in a setting in

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which many of the meaningful items that appear on many “wish lists” for reducing the regulatory burden are items that are a direct or indirect outgrowth of the outdated legal structure of our banking and financial system.

- Second, whether one likes it or not, it must be recognized that current patterns of what appear to be regulatory overkill—a phenomenon that is not unique to the United States—reflect an important element of public and political backlash to earlier events, especially the appearance of abuse. Perhaps that backlash is misplaced, perhaps it is unfair, but it is there. The reason why it is important to recognize that reality—however distasteful it may be—stems, of course, from the obvious fact that the easiest way to ensure that the pendulum swings back is for bankers and other practitioners to redouble their efforts to achieve the highest standards of prudence, discipline, and ethics in the day-to-day conduct of their business.
- Third, notwithstanding the above, and notwithstanding the fact that constructive steps in the direction of regulatory relief can be taken within the context of existing law, truly meaningful changes can only come through the legislative process. And, at least as I see it, those changes can best be evaluated and rationalized in a setting in which the basic reform of the banking system of which I spoke earlier is on the table. That may be wishful thinking and, if so, so be it. On the other hand, it may be the only way we have a realistic chance of

arriving at a broadly sensible and coherent solution to a series of closely interrelated structural and regulatory problems. To put it more bluntly, since piecemeal solutions have not worked in the past, would it be wise to assume that they will produce the desired result this time around? While it will require extra effort, the comprehensive approach may offer the only realistic chance of getting it right.

That, it seems to me, is an appropriate note for me to close my remarks. Before I do that, however, let me go back to the note on which I closed my first address to this group almost eight years ago to the day. At that time, I said:

Let me now conclude with a few words about the Federal Reserve Bank of New York. The bank is perhaps a bit mysterious and certainly is imposing even in its physical characteristics. Yet there cannot be—either to us or to you—an imaginary fence around that grand Florentine structure on Liberty Street. The ultimate strength of the bank rests in its roots being planted firmly in the community. That means that a free flow of dialogue on the pressing issues of the day must be high on our agenda.

I then went on to say:

Dialogue does not guarantee consensus, but it does help to ensure that as we go about discharging our public responsibilities with the sense of purpose and integrity that should be expected of the central bank, we will have the most informed judgments possible. We approach our tasks with an open door and an open mind, and at the same time with a steady eye on the public interest, as we are given the wisdom to see it.

Others will have to judge how well or how poorly we performed relative to that self-imposed mandate, but one thing I can say with confidence is that I and my associates gave it our best shot.

REFLECTIONS ON THE REFORM PROCESS IN RUSSIA

E. Gerald Corrigan
President

I am honored to have this opportunity to join my good friend Bob Strauss in addressing you on the vitally important subject of the economic and political reform process in the Russian Federation.* While it probably does not need to be said, the views I will outline tonight are mine and mine alone. Also, while my remarks are largely confined to the situation in Russia, they would generally apply to the other nations of the former Soviet Union as well.

Seeking to condense into a brief address the complexities and dynamics of one of the most historic events of the twentieth century is, of course, impossible. What I will do, therefore, is share with you a number of rather broad-brushed insights and impressions that I have accumulated in the twenty months since President Yeltsin first visited the Federal Reserve Bank of New York in June 1991. I also will share with you some thoughts as to what I believe must be done to solidify further the prospects for reform in Russia over the period ahead.

My starting point is to stress, as forcefully as I can, how complex this situation really is and how misleading it can be to judge it using conventional Western standards. In the economic sphere, for example, there is virtually no room for the transplanting to Russia of ideas, concepts, and experiences with economic reform efforts in other countries except at the highest level of generality.

My starting point is to stress, as forcefully as I can, how complex this situation really is and how misleading it can be to judge it using conventional Western standards. In the economic sphere, for example, there is virtually no room for the transplanting to Russia of ideas, concepts, and experiences with economic reform efforts in other countries except at the highest level of generality. In human terms, we are all mindful of—if not awed by—the legendary patience of the Russian people. But few of us can begin to grasp the daily hardships that are faced, not by a small minority of the population, but by a sizable fraction of the citizenry. We also tend to forget that the economic and political doctrines and values that we hold so dear are doctrines and values that have been forged

*Remarks before the Economic Club of New York, New York Hilton, New York City, February 9, 1993.

over centuries. In contrast, our friends in Russia have embarked on a course of immediate and simultaneous economic and political reform that, considering its starting point, is unprecedented.

The obstacles to be overcome in Russia are almost incomprehensible. For one thing,

We also tend to forget that the economic and political doctrines and values that we hold so dear are doctrines and values that have been forged over centuries. In contrast, our friends in Russia have embarked on a course of immediate and simultaneous economic and political reform that, considering its starting point, is unprecedented.

there are no obvious points of national reference in either political or economic terms, nor is there any institutional memory that can be brought to bear in charting the future. There are complex economic and financial interdependencies within and among the republics—interdependencies that in many ways are quite artificial and can be traced, in part, to the demonic genius of Stalin's efforts to achieve political control through elements of forced economic interdependencies. There are vast monopolies, quasi-monopolies, and bureaucracies—typically having *no* ideological content whatsoever—but each with a large vested interest in the past. Finally, there are complex issues growing out of the ethnic, religious, and cultural differences within a heterogeneous population spread out over a truly massive land area. We tend to forget, for example, that Russia spans eleven time zones.

Our ability to place the Russian situation in perspective also is hampered by a number of popular myths about Russia and Russians. For one thing, it is sometimes suggested that the Russians are not “entrepreneurial.” That view is simply bunk. In many ways, the Russians wrote the book and that is how they survived seventy-five years of tyranny and repression. As another example, it is sometimes suggested that the Russian people do not relate to the West or, even worse, do not trust the West, especially the United States. Based on my experience, and for most Russians, that too is bunk. Indeed, from what I have seen, the Russian people have an almost idealized admiration for the United States which, I sense, grows in part out of their recognition that we—as a large country—have managed to blend ethnic, cultural, and religious differences into a source of national strength and pride.

With that perspective in mind, let me now turn to the economic reform process—a process that began in earnest only a little more than a year ago. We know, and the

Russians know, that economic adjustment and reform must start with the standard general menu of monetary and fiscal discipline, price liberalization, and liberalization of trade and currency systems. We also know, and the Russians also know, that even the best macroeconomic policies are necessary but not sufficient conditions for success. That is, sufficiency comes only when macro policies are effectively blended with appropriate micro or structural policies, particularly in certain strategic industries or sectors of the economy.

Even the best macroeconomic policies are necessary but not sufficient conditions for success. That is, sufficiency comes only when macro policies are effectively blended with appropriate micro or structural policies, particularly in certain strategic industries or sectors of the economy. In the Russian case, the gap between necessity and sufficiency is very wide indeed.

In the Russian case, the gap between necessity and sufficiency is very wide indeed. For example, the continued presence of monopolies and poor distribution systems makes the supply side effects of price liberalization slow and uncertain, at best. Similarly, the initial and inevitable instability associated with the reform process tends to generate a flourishing underground economy—a phenomenon we have seen in many countries. While the underground economy helps to provide more goods, more jobs, and more competition, it also cuts significantly into tax collections, thereby aggravating the budget deficit. It also produces, at least in the short term, visible and potentially troublesome differences in relative incomes and standards of living.

While the dynamics of the inflation process in Russia are very complex, it is hard to escape the fact that the severity of the current problem is not fundamentally rooted in the monetary sphere. This is particularly the case since at least until now, budgetary deficits have had to be financed by printing money.

Despite these and many other obstacles, I believe it is fair to say that the initial phase of the economic reform process went better than many had expected. Unfortunately, it is also fair to say that beginning in the late summer of 1992, conditions began to slip. More recently, that slippage has taken on dangerous proportions as inflation has escalated sharply, approaching or reaching the proportions of a classical and highly destructive hyperinflation. The associated breakdown in financial discipline is being aggravated by

a renewed buildup in intra-enterprise and intra-republic debt and payment backlogs, which are both a cause and an effect of the inflation problem. While the dynamics of the inflation process in Russia are very complex, it is hard to escape the fact that the severity of the current problem is not fundamentally rooted in the monetary sphere. This is particularly the case since at least until now, budgetary deficits have had to be financed

While it would be wrong to underestimate the current problems in Russia, it would be even more erroneous to conclude that the situation is void of continuing and important signs of progress.

by printing money. It is also hard to escape the fact that checking and ultimately reversing the current inflation problem will be very difficult in political terms, especially with the April referendum waiting in the wings.

While it would be wrong to underestimate the current problems in Russia, it would be even more erroneous to conclude that the situation is void of continuing and important signs of progress. Let me briefly cite a number of those distinctly more positive signs:

- First and foremost, there is an ample supply of progressive and energetic leaders in the Russian government who are strongly committed to the reform process and who have a clear sense of the programs and policies that are necessary for success. Indeed, I would go one step further and say that there are also many, many industrial leaders who may differ with the government on matters of priority and timing but who are nevertheless committed to the goals of both economic and political reform. I say this notwithstanding occasional press reports in the West to the effect that these differences about tactics and timing are deeply rooted in the ideology of the past.
- Second, at the microeconomic level, I strongly suspect that much more is occurring in the Russian economy than is widely recognized and certainly much more than is captured in the official statistics. For example, based on my visits over time, I can not help but notice the number of relatively well-stocked new shops and stores that have sprung up in Moscow and the generally increased availability of goods of all kinds even if, unfortunately, the prices are very high for the typical Russian citizen.
- Third, the Russian privatization program has had a greater measure of success in a shorter period of time than I, frankly, would have thought possible.
- Fourth, important initial steps have been made in the codification of laws and

regulations in a wide range of commercial and financial endeavors.

- Fifth, slowly but surely, and with a measure of success, foreign investors are establishing operations in Russia—often on a joint venture basis.
- Sixth, and perhaps of special importance, this winter—unlike last winter—will pass without fear of food shortages with all of the human and political problems associated with such fears, much less such a reality.

Looked at in this light, the obvious question before us is whether the evident

I believe the chances are good, very good, that the process of political and economic reform has passed the point of no return. In saying that, I hasten to add that the process will not be a straight line; mistakes and misjudgments will occur; personalities will change.

problems can be contained and controlled as further progress is made in strengthening and broadening the areas in which progress is being achieved. In seeking to shed some light on that question, I begin with a central observation that may strike you as a clear case of a fool rushing in where a brave man dares not go: namely, I believe the chances are good, very good, that the process of political and economic reform has passed the point of no return. In saying that, I hasten to add that the process will not be a straight line; mistakes and misjudgments will occur; personalities will change. Let me also forcefully stress that the risks of reversal—however great or small they may be—carry with them such dire consequences for the world that we have no choice but to shape our attitudes and our policies with a view toward suppressing those risks to the point where they are negligible or nonexistent—a condition that certainly is not the case today.

There are many elements needed to ensure success. One that strikes me as particularly important is the continued courage and leadership of President Yeltsin. Perhaps we all have come to expect too much of political leaders. Perhaps the world has become so complex that the lofty vision of the man for all seasons is now no more than a dream. But if there is a man for all seasons in the contemporary Russian setting, that man is Boris Yeltsin.

Looking to the future, it is clear that the period immediately ahead is of vital importance. The Russians, for their part, must redouble their efforts in an extremely difficult economic and political setting. Since I see nothing to be gained and much to be lost in engaging in a lengthy public discourse about what I, as an outsider, think the details of Russian policy should be, I have no intention of broaching the specifics of that

subject tonight. I will, however, make the general observation that quickly achieving a measure of monetary and financial discipline strikes me as a must. I also will make the general observation that aggressive efforts in key sectors such as banking, agriculture, energy, and defense conversion must command high priority. Finally, the underpinnings

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of a healthy economy, including such items as the tax collection system, the collection of relevant and reliable economic statistics, and the workings of the payments system, must be made to work better as soon as possible.

Closer to home, attitudes and policies in the West and in the United States in particular are also crucial. Before we turn briefly to those subjects, a more general observation should be made. Namely, when Russian leaders, but especially when Western leaders, stress the virtues of a market economy, and even the virtues of

When Russian leaders, but especially when Western leaders, stress the virtues of a market economy, and even the virtues of democracy, many Russian citizens do not have a clear vision of what those terms of art really mean. Absent that vision, confidence about the future is, of course, elusive. For many Russian citizens, grasping that vision of the future is understandably clouded by the fact that they are worse off today than they were even a year or two ago.

democracy, many Russian citizens do not have a clear vision of what those terms of art really mean. Absent that vision, confidence about the future is, of course, elusive. For many Russian citizens, grasping that vision of the future is understandably clouded by the fact that they are worse off today than they were even a year or two ago. Their vision also is clouded by the very obvious disparities in the well-being of the relative few who are doing very well and the many who are not. As an example, while I neither speak nor understand Russian, I have the suspicion that the words “merchant” and “speculator” are often used interchangeably and that the connotation of both is not particularly becoming.

Against that background, I believe that there are several key points of reference that should help guide Western attitudes and policy formulation toward Russia and the other Republics of the Commonwealth of Independent States. Those points of reference include the following:

- First, we should embrace the philosophy that we want to help them do what they think is right for their country rather than force-feed detailed approaches and techniques that may have been very successful here or in other settings, but simply are not relevant to Russia.
- Second, while we admire the patience of the Russians, we too must be patient

First, we should embrace the philosophy that we want to help them [the Russians] do what they think is right for their country rather than force-feed detailed approaches and techniques that may have been very successful here or in other settings, but simply are not relevant to Russia. . . . Second, while we admire the patience of the Russians, we too must be patient and recognize that they are seeking to achieve in a very short time what it took us centuries to achieve. I also might add that even after centuries, it is quite evident that we do not exactly have it perfected. . . . Third, we must not judge either failures or successes by Western standards, or at least by Western standards alone. . . . Fourth, we need to recognize more fully that thinking small may be more relevant than thinking big. To put it differently, unless there is true progress at the micro level of the economy, even the most brilliantly conceived and executed macro policies will bear only limited fruit. In this regard, the underpinnings of the economic and financial system of which I spoke earlier—or the plumbing as I like to call it—warrant special attention. . . . Fifth, while a vision of the future is needed, that vision will come only slowly and it will come only if there are some quick and visible success stories.

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- Fifth, while a vision of the future is needed, that vision will come only slowly and it will come only if there are some quick and visible success stories.

This is neither the time nor the place to attempt to spell out in detail what these principles might imply in terms of concrete policy initiatives. I will say, however, that it is my fervent hope that the Clinton Administration—working with its partners in the Group of Seven governments—will move swiftly and decisively to sharpen policies and programs aimed at facilitating the economic and political reform process in Russia and elsewhere in the Commonwealth of Independent States. In this connection, I believe a great deal can be done, even with budget constraints and pressing agendas of domestic needs. I will also say—in the category of quick victories—that it is in the interest of both sides to complete a debt restructuring agreement quickly that explicitly recognizes that multiyear debt service relief—but not debt forgiveness—is needed and is in the

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interest of the debtor and the creditors alike.

Finally, based on my admittedly imperfect impressions, I believe that a great deal of effort is needed on both sides to better shape and coordinate technical assistance programs from the West. And based on my own experience with the work of the Russian-American Bankers Forum, I believe such programs will have a greater potential for success to the extent that they enlist, on a large scale, volunteers from the private sector who know how to get things done. It is one thing to write and talk about what needs to be done but it is quite another to help get it done in the trenches. Therefore, it is

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my conviction that “hands-on” private sector practitioners can play a vital and unique role in assisting the process of economic reform in Russia, and I intend to continue to do all I can to facilitate that effort.

In closing, ladies and gentlemen, let me offer one last thought. I said earlier that I believe the chances for ultimate success in this venture for mankind are good, very good. But to emphasize, they are far from certain. I also said that many Russians do not clearly comprehend, or have a vision of, a market economy or democracy. But the Russian people *do* understand, embrace, and cherish a vision of freedom. Every one of us has a very large stake in seeing to it that we do all we can to ensure that this vision of freedom becomes a lasting reality, for ultimately their freedom is our freedom.

Financial Statements

STATEMENT OF EARNINGS AND EXPENSES FOR THE CALENDAR YEARS 1992 AND 1991

(In Dollars)

	1992	1991
Total current earnings	7,554,618,896	8,321,208,854
Net expenses	<u>182,100,578</u>	<u>214,693,548</u>
	Current net earnings	8,106,515,306
Additions to current net earnings:		
Profit on sales of United States government securities and federal agency obligations (net)	47,361,641	49,980,606
Profit on foreign exchange	—	97,121,050
All other	<u>39,331</u>	<u>37,427</u>
	Total additions	147,139,083
Deductions from current net earnings:		
Loss on foreign exchange	313,796,613	—
All other	<u>3,251,312</u>	<u>14,052,900</u>
	Total deductions	14,052,900
	Net additions (deductions)	133,086,183
Assessments by the Board of Governors:		
Board expenditures	37,396,200	31,222,600
Federal Reserve currency costs	<u>101,456,057</u>	<u>100,248,786</u>
	Total assessments	131,471,386
	Net earnings available for distribution	8,108,130,103
Distribution of net earnings:		
Dividends paid	49,868,773	43,267,767
Transferred to surplus	113,600,200	104,367,350
Payments to United States Treasury		
(interest on Federal Reserve notes)	6,800,550,135	7,960,494,986
	Net earnings distributed	8,108,130,103

STATEMENT OF CONDITION

(In Dollars)

Assets	Dec. 31, 1992	Dec. 31, 1991
Gold certificate account	4,041,613,390	3,913,778,047
Special drawing rights certificate account	2,808,000,000	3,395,000,000
Coin	13,054,000	15,532,123
	Total	6,862,667,390
		7,324,310,170
Advances	0	7,000,000
United States government securities:		
Bought outright†	14,768,971,286	105,022,220,206
Held under repurchase agreements	7,463,000,000	15,345,150,000
Federal agency obligations:		
Bought outright	2,105,691,764	2,382,137,667
Held under repurchase agreements	631,000,000	552,850,000
	Total loans and securities	124,968,663,050
		123,309,357,873
Other assets:		
Cash items in process of collection	1,352,273,818	968,700,956
Bank premises	137,086,999	127,101,346
All other‡	9,679,651,553	10,525,101,074
	Total other assets	11,169,012,370
		11,620,903,376
Interdistrict settlement account	(19,514,352,117)	(12,000,155,993)
	Total assets	123,485,990,693
		130,254,415,426

†Includes securities loaned — fully secured

371,100,000 676,950,000

‡Includes assets denominated in foreign currencies revalued monthly at market rates.

STATEMENT OF CONDITION
(In Dollars)

Liabilities	Dec. 31, 1992	Dec. 31, 1991
Federal Reserve notes (net)	105,028,039,615	100,834,171,266
Reserve and other deposits:		
Depository institutions	7,530,921,887	6,460,525,291
United States Treasury — general account	7,491,658,567	17,696,902,345
Foreign — official accounts	107,180,093	858,904,306
Other	193,642,896	639,546,133
Total deposits	15,323,403,443	25,655,878,075
Other liabilities:		
Deferred availability cash items	629,032,265	865,763,335
All other	735,474,170	1,355,761,950
Total other liabilities	1,364,506,435	2,221,525,285
Total liabilities	<u>121,715,949,493</u>	<u>128,711,574,626</u>
Capital accounts:		
Capital paid in	885,020,600	771,420,400
Surplus	885,020,600	771,420,400
Total capital accounts	<u>1,770,041,200</u>	<u>1,542,840,800</u>
Total liabilities and capital accounts	<u>123,485,990,693</u>	<u>130,254,415,426</u>

Changes in Directors and Senior Officers

CHANGES IN DIRECTORS. In December 1992, member banks in Group 2 elected Robert G. Wilmers a Class A director of the Bank, and William C. Steere, Jr., a Class B director, both for three-year terms beginning January 1, 1993. Mr. Wilmers, Chairman, President, and Chief Executive Officer of Manufacturers and Traders Trust Company, Buffalo, N.Y., succeeded Victor J. Riley, Jr., Chairman, President, and Chief Executive Officer of KeyCorp, Albany, N.Y., who had served as a Class A director since January 1990. Mr. Steere, Chairman of the Board and Chief Executive Officer of Pfizer Inc., New York, N.Y., succeeded John A. Georges, Chairman and Chief Executive Officer of International Paper, Purchase, N.Y., who had served as a Class B director since February 1987.

Also in December, the Board of Governors of the Federal Reserve System redesignated Ellen V. Futter Chairman of the Board and Federal Reserve Agent for the year 1993. Ms. Futter, President of Barnard College, New York, N.Y., has been serving as a Class C director since January 1988; she served as Deputy Chairman from September 1988 through December 1991 and has been serving as Chairman and Federal Reserve Agent since January 1992.

At the same time, the Board of Governors reappointed Maurice R. Greenberg Deputy Chairman for the year 1993. Mr. Greenberg, who is Chairman and Chief Executive Officer of American International Group, Inc., New York, N.Y., has been serving as a Class C director since June 1988 and as Deputy Chairman since January 1992.

In January 1993, the Board of Governors reappointed Cyrus R. Vance a Class C director for the term beginning January 1, 1993. Mr. Vance, who is presiding partner of the New York law firm of Simpson Thacher & Bartlett, has been a Class C director since January 1989 and served as Chairman of the Board and Federal Reserve Agent for the years 1989-91.

Buffalo Branch. In October 1992, the Board of Governors reappointed Herbert L. Washington a director of the Buffalo Branch for a three-year term beginning January 1, 1993. In addition, the board of directors of this Bank redesignated him Chairman of the Board of the Buffalo Branch for the year 1993. Mr. Washington, who is the owner of HLW Fast Track, Inc., Rochester, N.Y., has been serving as a director of the Buffalo Branch since June 1990 and as Chairman of the Branch Board since January 1992.

In September 1992, the board of this Bank appointed George W. Hamlin IV a Branch director for a three-year term beginning January 1, 1993. On the Branch Board, Mr. Hamlin, President and Chief Executive Officer of The Canandaigua National Bank and

Trust Company, Canandaigua, N.Y., succeeded Wilbur F. Beh. Mr. Beh, formerly Chief Executive Officer of First National Bank of Rochester, Rochester, N.Y., and President of Atlanta National Bank, Atlanta, N.Y., had been a director of the Branch since January 1990.

CHANGES IN SENIOR OFFICERS. The following changes in the official staff at the level of vice president and above have occurred since the publication of the previous *Annual Report*:

Don N. Ringsmuth, Counsel, resigned from the Bank effective June 13, 1992. Mr. Ringsmuth joined the Bank in 1970 and became an officer in 1976.

In July, Peter D. Sternlight, Executive Vice President, Open Market Group, announced his retirement, effective December 1, 1992, after forty-two years of distinguished service.

Effective July 17, 1992:

Richard G. Davis, formerly Senior Vice President and Director of Research, was appointed Executive Vice President and Director of Research.

Roberta J. Puschel, formerly Senior Vice President, was appointed Executive Vice President and assigned responsibility for the newly formed International Banking Group, consisting of the Central Bank Financial Services Function (formerly the Foreign Relations Function) and the International Bank Examinations Function. Her assignment to the Accounting Function continues.

Kathleen A. O'Neil, Vice President, formerly assigned to the Bank Examinations Function, was assigned to the International Bank Examinations Function.

The Financial Markets Group was established, consisting of the Open Market, Foreign Exchange, International Financial Markets, and Market Surveillance Functions. Responsibility for Foreign Exchange and International Financial Markets was assigned to William J. McDonough, Executive Vice President. He also assumed responsibility for Open Market and Market Surveillance following Mr. Sternlight's retirement in December.

Peter Ryerson Fisher, formerly Assistant Vice President, Foreign Exchange Function, was appointed Vice President in that Function.

Terrence J. Checki, formerly Vice President, Foreign Relations Function, was assigned to the newly formed Office of the President, with the title of Assistant to the President.

Bradley K. Sabel was promoted to the level of Vice President, retaining the title of Counsel.

Effective August 1, 1992:

John E. Flanagan, General Auditor, retired after completing more than forty years of service with the Bank.

Robert M. Abplanalp, formerly Senior Vice President, Operations Group, was appointed General Auditor of this Bank by the Board of Governors of the Federal Reserve System.

Irwin D. Sandberg, Senior Vice President, Central Bank Financial Services Function, retired effective February 1, 1993, after completing more than thirty-two years of service with the Bank.

Directors of the Federal Reserve Bank of New York

DIRECTORS

	<i>Term expires Dec. 31</i>	<i>Class</i>
BARBARA HARDING	1993	A
Chairman and Chief Executive Officer, The Phillipsburg National Bank and Trust Company, Phillipsburg, N.J.		
THOMAS G. LABRECQUE	1994	A
Chairman and Chief Executive Officer, The Chase Manhattan Bank (National Association), New York, N.Y.		
ROBERT G. WILMERS	1995	A
Chairman, President, and Chief Executive Officer, Manufacturers and Traders Trust Company, Buffalo, N.Y.		
RAND V. ARASKOG	1993	B
Chairman, President, and Chief Executive, ITT Corporation, New York, N.Y.		
ROBERT E. ALLEN	1994	B
Chairman and Chief Executive Officer, AT&T, New York, N.Y.		
WILLIAM C. STEERE, JR	1995	B
Chairman and Chief Executive Officer, Pfizer Inc., New York, N.Y.		
ELLEN V. FUTTER, <i>Chairman and Federal Reserve Agent</i>	1993	C
President, Barnard College, New York, N.Y.		
MAURICE R. GREENBERG, <i>Deputy Chairman</i>	1994	C
Chairman and Chief Executive Officer, American International Group, Inc., New York, N.Y.		
CYRUS R. VANCE	1995	C
Presiding Partner, Simpson Thacher & Bartlett, New York, N.Y.		

DIRECTORS—BUFFALO BRANCH

JOSEPH J. CASTIGLIA	1993
President and Chief Executive Officer, Pratt & Lambert, Inc., Buffalo, N.Y.	
SUSAN A. McLAUGHLIN	1993
General Credit Manager, Eastman Kodak Company, Rochester, N.Y.	
CHARLES M. MITSCHOW	1994
Chairman of the Board, Western Region, Marine Midland Bank, N.A., Buffalo, N.Y.	
RICHARD H. POPP	1994
Operating Partner, Southview Farm, Castile, N.Y.	
DONALD L. RUST	1994
Plant Manager, Tonawanda Engine Plant, GM Powertrain Division, General Motors Corporation, Buffalo, N.Y.	
GEORGE W. HAMLIN IV	1995
President and Chief Executive Officer, The Canandaigua National Bank and Trust Company, Canandaigua, N.Y.	
HERBERT L. WASHINGTON, <i>Chairman</i>	1995
Owner, HLW Fast Track, Inc., Rochester, N.Y.	

Advisory Groups

FEDERAL ADVISORY COUNCIL

SECOND DISTRICT MEMBER AND ALTERNATE MEMBER

CHARLES S. SANFORD, JR., *Member*

Chairman and Chief Executive Officer, Bankers Trust Company, New York, N.Y.

GEORGE J. VOJTA, *Alternate Member*

Vice Chairman, Bankers Trust Company, New York, N.Y.

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ALAN S. BLINDER

Princeton University

PHILLIP D. CAGAN

Columbia University

RUDIGER W. DORNBUSCH

Massachusetts Institute of Technology

MARTIN S. FELDSTEIN

Harvard University

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Harvard University

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Princeton University

PAUL R. KRUGMAN

Massachusetts Institute of Technology

BURTON G. MALKIEL

Princeton University

FREDERICK S. MISHKIN

Columbia University

WILLIAM POOLE

Brown University

ROBERT J. SHILLER

Yale University

WILLIAM L. SILBER

New York University

LAWRENCE H. SUMMERS

International Bank for Reconstruction and Development

LAWRENCE J. WHITE

New York University

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President, H.F. Henderson Industries, West Caldwell, N.J.

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President, Wormuth Brothers Foundry, Athens, N.Y.

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Knight Manufacturing Co., Lindenhurst, N.Y.

TONI NORMAN

President, Ranor Inc., Englewood, N.J.

JOAN SNYDER

The American Family Farm, Inc., Stuyvesant, N.Y.

PETER G. TEN EYCK II

President, Indian Ladder Farms, Altamont, N.Y.

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Zurich, Switzerland

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Bank of America

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New York, N.Y.

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PATRICIA HILT, *Manager, Securities Transfer Department*
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GEORGE H. BOSSY, *Manager, Central Bank Financial Services Department*
HILDON G. JAMES, *Manager, Central Bank Financial Services Department*
FRANCIS J. REISCHACH, *Manager, Central Bank Financial Services Department*

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BONNIE E. LOOPESKO, *Assistant Vice President*
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PERSONNEL; PROTECTION

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GARY S. WEINTRAUB, *Cashier*

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